Interconvertible Bonds will Preclude the Possibility of Lock-up of Currency.

SPEECH

OF

HON. WILLIAM D. KELLEY,

OF PENNSYLVANIA,

IN

THE HOUSE OF REPRESENTATIVES,

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SPEECH

OF

HON. WILLIAM D. KELLEY.

The House, as in Committee of the Whole, for debate only, having under consideration the following bill:

A bill (H. R. No. 539) for the issue of convertible bonds and the reduction of the interest on the funded debt of the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the amount of United States notes in circulation be limited, except as hereinafter provided, to $400,000,000; and that any holder of said notes presenting any sum not less than fifty dollars, or some multiple thereof, to the Treasurer of the United States, or any of the assistant treasurers, shall receive in exchange therefor an equal amount of bonds of the United States, coupon or registered, as may by said holder be desired, bearing interest at the rate of 3.65 per cent. per annum, payable semi-annually, which the Secretary of the Treasury is hereby authorized to prepare and furnish for that purpose; and that when any person shall demand of the Treasurer of the United States, or any assistant treasurer, redemption of said bonds, it shall be the duty of said Treasurer or assistant treasurer to pay in United States notes the principal of said bond or bonds with accrued interest and cancel and forward the bonds thus redeemed to the Treasurer of the United States forthwith, in such manner as the Secretary may prescribe

SEC. 2. That the Secretary of the Treasury shall cause to be prepared United States notes of the several denominations now in use to the amount of $50,000,000, which shall be held as a reserve or redemption fund for the purpose of securing prompt payment of said bonds when demanded, and the United States notes so held in reserve shall be used only when needed for the payment of said bonds on their presentation, and shall be withdrawn and placed again in reserve out of any United States notes not otherwise appropriated, received by the Treasury Department thereafter; and the whole amount of United States notes received by the Treasury Department in exchange for said bonds bearing 3.65 per cent. interest shall be appropriated and applied by the Secretary of the Treasury, as rapidly as practicable, to the purchase or redemption of any bonds of the United States outstanding at the passage of this act.

SEC. 3. That national banks are hereby authorized to hold said bonds bearing 3.65 per cent. interest instead of the reserve of United States notes now required by law—

Mr. KELLEY said:

Mr. SPEAKER, I listened with profound interest to the remarks of my friend from Ohio, [Mr. BUNDY;] and rise now to make a suggestion or two in connection therewith, not in the way of dissent, but in the hope of elucidating two points on which he said he entertained doubts. So grateful am I to him for the expression of the true foundations and limitations of currency, and of the true laws of finance, that I could not speak at this time if my words were to imply dissent from his premises or argument.

One point on which the gentleman expressed doubt was the question of local and State taxation, as to how far these might be affected by the substitution of greenbacks for national-bank notes. It occurred to my mind as he spoke that he was under a slight misapprehension. It was this: that if greenbacks were substituted for national-bank notes, the banks as corporate institutions would go out of exist-

ence, and that their capital might be withdrawn from the community in which it is now employed. Neither of these results would, I apprehend, occur. The capital, should it bo withdrawn from banking, belonging to the county or the locality in which the bank exists, would be embarked in other pursuits equally subject to taxation. But, sir, I apprehend that were the change made, were we to make our currency uniform by giving effect to the principle which the leading minds of England now claim to be her right and duty, namely, to stamp all the money of the realm with the impress of the government, and thus give to the government and the people the profits resulting from its issue instead of giving them in that country to the Bank of England, and in this to the national banks—were that great change effected, the banks would be relieved from the tax on circulation, which is the only distinctive tax they pay as national banks. The taxes levied on their property, on deposits and other sources of profit, are levied on private banks and State banks by the same provisions of law. They would, therefore, in banking on greenbacks be released from the tax on circulation, and would have a larger amount of currency with which to discount paper than they now have. The proposition involves no hostility to banks.

For instance, they now have but 90 per cent. of the par value of their bonds in bank-notes. They would then, by the sale of their bonds, have 15 per cent. above their par or face value, that being the current price of the bonds in the market; so that each bank having been released from the tax on circulation would have $115 of active banking capital where it now has but $90. I apprehend, therefore, that every national bank would take to doing business as State and private banks now do. There would then be no national-bank notes, our currency would be uniform, and there would be no legal demand for a reserve with which to redeem bank-notes. The Government would not require banks to hold a reserve of greenbacks with which to redeem greenbacks, and the law of reserve would be simply the law of sound banking. Each bank would hold only an amount of currency sufficient in the judgment of its officers to meet its current liabilities to depositors.

Again, sir, should we issue the three sixty-five bonds, the reserve would probably be larger, and moro amply secure depositors, than it has ever done, and for this reason: A reserve, whether of gold or legal-tender paper, is unprofitable, as it lies dead and unproductive in the vaults of the bank. The officers of banks are therefore constantly tempted by their own interests and the demands of customers to draw unduly upon their reserve. If, therefore, banks and bankers could hold three sixty-five convertible bonds which would be in fact the equivalent of currency upon the instant in every city in which there is a sub-treasury, and also be available as domestic exchange, as they would be, between all parts of our country, they would be receiving a profit upon their reserve; it would no longer be dead capital but be productive, and they could therefore afford to and would hold a larger reserve than is now usual, and give more absolute security to their depositors than has been given by any system of banking that has ever prevailed within the limits of our country.

I come now to a question not raised by the gentleman, but which, as he stated, had been suggested to him by others, which is, cannot such bonds be manipulated by the capitalists of the country, or by the thieving gamblers of Wall street, whom no law or principle of honesty has ever restrained? This question is a pregnant one. The

practices of these men cannot be too severely denounced. They have stolen greenbacks and gold, and stocks and bonds, as the Erie Railroad was stolen. The morality that prevails among such pious men as Daniel Drew, and Cornelius Vanderbilt, the founder of a Methodist University somewhere in the South, and their associates, is, as I have elsewhere said, so false and selfish that it would be spurned by most of the inmates of the penitentiaries of the country; and yet their manipulations of the stock and gold exchanges affect the value of corn and cotton in the field and of coal and ore in the mine, and every species of property throughout the country. That this class of capitalists would if it were in their power manipulate these bonds, when issued, I have no doubt. But can they do it? I think not; and in assigning my reasons for this opinion, I address myself also to the query of my friend and colleague from the Lehigh district [Mr. BIERY,] who inquired whether the provisions of the bill I had the honor to present should not embrace a proviso to the effect that the debt of the United States should not be increased by issuing more three sixty-five bonds than the present total of gold-bearing bonds. Though I believe such an event to be impossible, I may say in passing that I see no objection to inserting such a provision in the bill.

I turn now to the proposition of the gentleman from Ohio, [Mr. BUNDY.] There are at this time at least $250,000,000 waiting to be handed to the Government in exchange for three sixty-five bonds.

Mr. HAWLEY, of Connecticut. Allow me to ask the gentleman if that indicates a scarcity of currency?

Mr. KELLEY. I will tell you what it indicates. It indicates the condition of health shown by the falling man, who with flushed cheeks and swollen eyes drops speechless upon the pavement as he walks. His hands and feet are cold and numb, and his limbs are bloodless, the circulation having gone to the brain or the heart. Sir, the banks are now gorged with unemployed currency, because the limbs of industry are paralyzed; the forge and furnace glow no longer, and the loom and the spindle give shelter to the spider, that instinctively seeks a quiet corner in which to spin and weave its web. The toiling man who had earned from two dollars to five dollars per day in productive industry is eating the bitter bread of idleness and charity, and his unemployed boys and girls seek their food at the door of the soup-house. Give them employment and wages by putting into circulation a sufficient volume of money to animate the industries of the country, to rekindle the fires in your forges and furnaces, and to employ the one hundred and ten thousand idle laborers in the State of New York, and the forty-odd thousand in Philadelphia, and you will find that there will be no large accumulation of money in the banks of either New York or Philadelphia. It will then go into circulation.

Mr. DAWES. I thought you were going to put $200,000,000 of it in the Treasury.

Mr. HAWLEY, of Connecticut. Allow me——

Mr. KELLEY. I had rather not be interrupted now. We will soon have general discussion on the subject. I am answering questions already, and would like some of the contracting bullionists, some of the extortionists, who are in favor of sweeping the accumulated earnings of the poor into the coffers of the rich, to come forward, as I have done on another occasion, and offer themselves to be catechized. When they shall do this, I will guarantee that they will not want more than three or four of their antagonists to question them at a

time. I am content with two—my colleague, [Mr. BIERY,] and the gentleman from Ohio, [Mr. BUNDY.]

Mr. DAWES. Suppose you answer a question once; I will put a question to you.

Mr. KELLEY. I am trying to answer the gentleman from Ohio, [Mr. BUNDY.] When I shall have done that I will be glad to hear the gentleman from Massachusetts [Mr. DAWES] demonstrate that he can give employment to idle people by further contraction of the currency.

Mr. DAWES. Well, what I want——

Mr. KELLEY. Mr. Speaker, when I shall have done I will await the gentleman's demonstration; but for the present I decline to yield to him, or be interrupted by him.

Mr. DAWES. Then just answer his question.

Mr. KELLEY. When the gentleman gets the floor let him put his question. When he shall establish his right to guardianship over me, he may then instruct me as to what question I must reply to, and with whom I may talk, and from whom I must keep apart.

Mr. DAWES, Well, just answer Mr. BUNDY's question.

Mr. KELLEY. But, sir, the gentleman has no more a supreme right on this floor than, as I said the other day to another gentleman, he had. And I assert to him, as I did to that gentleman, that there are men on this floor who have a right to be heard, though they were born and brought up outside of New England.

Mr. DAWES. That is not fair and civil.

Mr. KELLEY. I have exhausted all fair and courteous means of securing my right to proceed.

Mr. DAWES. Give me a moment to set myself right; that is all I ask.

Mr. KELLEY. I proceed to the question I was considering; can such bonds——

Mr. DAWES. Allow me to set myself right.

Mr. KELLEY. Mr. Speaker, I have said to the gentleman that I decline to be interrupted by him, and I again decline. I have some rights as well as he, and I am going to maintain them. I did not meddle with him, and he shall not impose his will upon me.

If there shall be $250,000,000 of three sixty-five bonds issued, or if there shall, as I believe there will, be $500,000,000 of them issued within one year from the time they may be promulgated, I want to know what combination of speculators will be strong enough to manipulate or corner them. The banks cannot invest $300,000,000 or $500,000,000 in them, and the combinations of Wall street are exhausted by fifteen or twenty millions of dollars. If banks, bankers, or speculators should under such circumstances attempt to hoard or corner either greenbacks or bonds, what would be the result? Why, sir, when money became more scarce than usual—for that would be the object of hoarding them—other holders of the bonds would carry them to the Treasury and have them redeemed, and thus greenbacks, instead of being applied to the purchase of 6 per cent. bonds, would replenish the circulation, and they who had invested $5,000,000, $10,000,000, or $15,000,000 in the attempt to corner them would find themselves in the vocative. The cardinal merits of the convertible-bond system are the low rate of interest at which they will be taken in consideration of their convertibility, and the fact that they would preclude the possibility, of corners, by which the business of the country has been so frequently and so disastrously affected.

The larger the volume of these bonds within the limits of our in-

debtedness the less practicable would it be to manipulate them or the currency. The more widely they should be distributed over the country the less practicable would it be to control them. For if the lock-up were attempted in Wall street the banks and insurance companies, finding that a high rate of interest prevailed, would send their bonds to the sub-treasury and get greenbacks for them. If the scarcity of money and high rate of interest prevailed in Chicago, or Saint Louis, or New Orleans, whoever held convertible bonds in those cities, whether merchant, bank, or banker, would send them to the sub-treasury and get greenbacks for them. And I again say that in the existence of an interconvertible temporary loan you have an absolute guarantee against the possibility of a lock-up of the credit or money of the country in any of its forms.

I did not intend, sir, to speak so long as I have done; but being on the floor I proceed to strengthen one of the leading positions of my excellent friend from Ohio, [Mr. BUNDY.] He exhibited some striking proofs of the fact that we have not currency enough for the cheap and safe transaction of the legitimate business of the country. Before this system of contraction, which has involved so many of our best people in ruin, began, we had no other currency than greenbacks and national-bank notes. The credit system had almost disappeared from the interior districts of the country. Workmen were no longer sent to stores with orders and compelled to buy what the store-keeper might have at his price, but received their wages in money, and bought where they could buy cheapest and most agreeably to their tastes. The farms of the country had been freed from mortgage and judgment to a greater extent than ever before or than is now the case, and the prevailing rate of interest was low. The business of the country was then conducted so largely on a cash basis that the discounts in the banks ran down to such an extent that one-half of their investments were in Government securities; indeed, in default of business paper in which to invest their means, they held at the close of 1865 one-fourth of the national debt of the country. How is it now? There is now practically no currency accessible to the masses of the people. Workmen—the relatively few who are employed—are paid in orders on stores, and most of the business of the country is transacted on credit. The national banks on the 12th of September last had swollen their discounts to $944,220,000; and while, on the 1st of October, 1865, they held $189,988,000 of reserve to a total of discounts of $487,170,000, they had, on the 12th of September, 1873, a reserve of but $113,132,000, with discounts amounting, as I have said, to $944,220,000.

I have heretofore said on this floor that in proportion as you contract the currency—the current money of the country—you compel an expansion of the credit system and erect an inverted pyramid, standing on its apex, and with its broad, inverted base so ill-balanced that it must ere long topple over and bring ruin to the business of the country. I propose to illustrate this truth by adding to the proof adduced by the gentleman from Ohio.

In the report of the Comptroller of the Currency, on pages 44 and 45, I find under the title "shin-plasters" this statement:

In my last report I called the attention of Congress to the issue of bills of credit by the State of Alabama, which issues are prohibited by section 10, article 1, of the Constitution of the United States; and also to the issue of unauthorized currency by various corporations in the South, and the necessity of legislation to prevent this abuse. The issue of such unauthorized currency is increasing in various directions. Railroad corporations in the Southern States had been issuing, for some years past,

notes for circulation, of different denominations, many of which are similar to the following:

$10.] CENTRAL RAILROAD BANK, SAVANNAH, GEORGIA.

Fare-ticket, X.

Good for the fare of two passengers one hundred and twenty-five miles.

The Central Railroad and Banking Company of Georgia, Savannah, December 1, 1871.

—— ——, *President.*

—— ——, *Superintendent.*

I am informed that these issues are redeemed by the railroad company, and that quite extensive arrangements are being made by manufacturing companies and corporations to issue similar devices. Such circulation is also being issued by the mining corporations of Lake Superior, and by Zion's Commercial Co-operative Institution in Salt Lake City. Similar issues are also made for circulation in the State of Maine, which purport to be drawn on (or by) parties residing at Saint Stephen, New Brunswick. Issues of this character will be likely to increase in the present anomalous condition of the currency, unless Congress shall legislate them out of existence by inflicting such penalties, or assessing such taxes, as will deter the corporations in question from engaging in such illegitimate practices.

But, sir, suppose Congress were to legislate those issues of unauthorized currency out of existence, would that remedy the evil, which is far more wide-spread than the Comptroller indicates? Here is a one-dollar note of the Phœnix Copper Company, of Phœnix, Michigan. How many of them are in circulation I cannot tell. It reads as follows:

PHŒNIX COPPER COMPANY.

PHŒNIX, MICHIGAN, *June* 28, 1873.

Three days after date, without interest, for value received, the Phœnix Copper Company promise to pay to bearer, at the office of the treasurer, in Boston, one dollar.

F. G. WHITE, *Agent.*

B. 1083.

Let me read you this other obligation, which is like unto it:

No. 271.] THE SAGINAW MINING COMPANY.

A. G. Slone, Secretary.

ISHPEMING, MICHIGAN, *April* 11, 1873.

Pay to George Pelmear, or bearer, one dollar, value received, and charge to the account of

J. P. MITCHELL, *Agent.*

To the CLEVELAND ROLLING-MILL COMPANY,
Cleveland, Ohio.

Here is another, from a point nearer to my home, and shows the want of currency in the region of country between Philadelphia and New York.

[No. 50, E.]

NEWTOWN, *November* 20, 1873.

PHILADELPHIA, NEWTOWN AND NEW YORK RAILROAD COMPANY:

Six months after date pay to James H. Sellers & Co., or bearer, one dollar, and charge to our account.

JAMES M. SELLERS & CO.

To CHARLES WILLARD, *Treasurer Philadelphia, Newtown and New York Railroad Company, Newtown, Bucks County.*

Accepted November 20, 1873. Payment secured by a deposit of first-mortgage bonds with Newtown Banking Company.

CHARLES WILLARD,
Treasurer.

Now, sir, suppose we can so legislate that the laboring man at Ishpeming or Phœnix, Michigan, shall not be paid in one-dollar drafts on Boston, Massachusetts, or Cleveland, Ohio, shall we thereby restrict the system of private credits by which they are so often defrauded?

By no means. Why, then, should not greenbacks take the place of these private issues? To compel their withdrawal without such substitution would be to further contract the currency. Why should private firms and corporate companies have the advantage of issuing these notes, and the profit resulting from their loss or destruction, to the exclusion of the national currency, which bears the imprint of the Government, and the redemption of which is secured by the credit of the nation and the property of the people?

But, sir, could we perform the miracle of preventing such issues while withholding an adequate amount of lawful money from the people we would not have reached the root of the evil inflicted by the contraction of the volume of legal currency. I have here a letter which I received by yesterday's mail, which shows that under the infernal contraction policy we have pursued, and which gentlemen would press still further, the few laboring men who now find employment are handed over, bound as with gyves, to the money-lenders and credit-mongers of the country. It is from as reputable a citizen as there is in Philadelphia, and it illustrates fully the condition of the best classes of working people in that vicinity. It presents the statement of James Corr, who is in the stone, lime, and coal business. I will read the whole communication:

I sold Serrill $150 worth of coal and lime, $75 each; took for them two dry-goods orders, $75 each. These I handed to Mr. Beatty for stone. Beatty passed them off to his men who quarry for him, first getting the orders accepted and divided into small amounts to suit the wants of the men. I sold John Geisse the stone, and took orders on groceries for 90 per cent. of the bill; the rest in money.

PHILADELPHIA, *January* 21, 1874.

Hon. WILLIAM D. KELLEY:

DEAR SIR: I have just written the above from the lips of James Corr, a man who has been a gardener in my employ for the ten years previous to the last two. Since then he has been in the stone, lime, and coal business, and neither he nor those he deals with can get a discount in bank, mainly because the money business is a monopoly. Do not let any one delude you with the idea that money is plenty. It is not with this class of people, and they are the ones who create our wealth.

What a picture that is of James Corr, and yet a majority of our laboring men do the same. Of course labor loses by such changes, because of the risk and uncertainty.

Who among us shall be ingenious enough to devise a statute that shall prevent ill-clad or starving people from toiling for these orders, and getting what they can for them, or those upon whom the orders are drawn from taking advantage of their necessities? Why, in the name of humanity, I ask, shall we not emancipate the laborers of the country from thralldom like this by issuing currency enough to reanimate the business of the country and give employment to its industrious but idle and suffering millions, and by making that currency interconvertible with three sixty-five bonds prevent the recurrence of such crises as that which has caused the misery they are enduring?